Traditional Medicare...Disadvantaged?

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Sometimes it takes a call from a friend to take a fresh look at what's going on in Medicare. My friend Craig, a rugged Coloradan, turned 65 a few years ago and signed up for a Medicare Advantage plan. At the time, this decision was easy. He wanted to stay with the same insurer he had before he was eligible for Medicare. He liked the convenience of having one plan (his Medicare Advantage HMO) instead of three (traditional Medicare, a supplemental Medigap policy, and a separate Medicare drug plan). He also liked the fact that his monthly Medicare HMO premium was lower than what he would have paid, had he opted for traditional Medicare with separate Medigap and Part D policies.

So far so good until he had a serious mountain-biking accident, was rushed to the emergency room, and in the course of getting patched up, learned that he had tumors on his spine and would likely need surgery. After seeking a second opinion, he concluded that the best and most experienced surgeon was one who was out of his plan's network. His HMO denied his appeal to be treated by the out-of-network surgeon. Had he stayed in his HMO and opted for that surgeon anyway, he could have been on the hook for the full cost of his surgery – a financial non-starter.

After just two years on Medicare, Craig's priorities had changed. Because of his medica condition, he wanted health insurance that would allow him to choose his own doctors including the recommended surgeon. He decided to disenroll from his Medicare HMO and shift to traditional Medicare during the next open enrollment period to have greater flexibility in choosing his own providers.

But before making the switch, Craig was surprised to learn that traditional Medicare does not have an annual out-of-pocket limit for inpatient or outpatient care, unlike his HMO. In contrast, all Medicare Advantage plans are required by the Center for Medicare and Medicaid Services (CMS) to provide an annual limit on out-of-pocket spending for services covered under Medicare Parts A and B not to exceed $6,700 (http://kff.org/medicare/issue-brief/medicare-advantage-2015-spotlight-enrollment-market-update/). Similar protections were provided to the non-elderly under the ACA who typically have the protection of an annual out-of-pocket maximum for covered in-network services, including prescription drugs, under both non-grandfathered employer-sponsored plans

(http://kff.org/report-section/ehbs-2015-section-seven-employee-cost-sharing/) and qualified health plans (http://kff.org/medicare/report/comparison-of-consumer-protections-in-three-health-insurance-markets/) in the Marketplace ($6,850 for an individual in 2016).

Craig's plan was to purchase a Medicare supplemental insurance (Medigap) policy to limit the risk he might incur under traditional Medicare without an out-of-pocket limit, but he couldn't. He was denied Medigap coverage because of his pre-existing condition. Under federal law and in many states, insurers are not required to participate in an annual open enrollment period, and are only required to sell a policy under specific circumstances, such as when applicants first enroll in Medicare at age 6[illegible] or within a year of trying a Medicare Advantage plan. In other words, consumer protections, such as an annual open enrollment period without pre-existing condition exclusions, do not apply to the Medigap market as they do for Marketplace and Medicare Advantage plans.

This means that seniors who opt for a Medicare Advantage plan when they first go on Medicare can forever be locked out of the Medigap market. Seniors are permitted to switch back and forth between traditional Medicare and Medicare Advantage during the open enrollment period, but if they choose Medicare Advantage from the start, as more and more Boomers are doing (http://kff.org/medicare/issue-brief/health-affairs-article-at-least-half-of-new-medicare-advantage-enrollees-had-switched-from-traditional-medicare-during-2006-11/), they may be making an irrevocable decision by giving up their right to purchase supplemental insurance later in life.

Although Craig would have preferred coverage under traditional Medicare for its broa[illegible] choice of surgeons and specialists, he felt he could not expose his family to unforeseeable costs without an out-of-pocket limit or back-up protection under a supplemental policy. He ultimately found a different Medicare Advantage plan that included his surgeon in network, and is hoping that his new plan will cover any other specialist he may need.

Craig's experience raises important issues for consumers and policymakers. Health insurance choices facing Boomers aging onto Medicare are complex, and may be hard to undo as medical needs and preferences change over time. Craig's story illustrates how current rules may disadvantage seniors who prefer traditional Medicare because they want greater control over their health care, but feel they need the financial protection of an out-of-pocket limit. Under current rules, seniors are *entitled* to an out-of-pocket limit only if they sign up for a Medicare Advantage plan, but not if they choose traditional Medicare. And, while seniors have the opportunity to switch from Medicare Advantage to traditional Medicare for any reason during an open enrollment season, they may be unable to protect themselves from unforeseeable costs by purchasing supplemental coverage if they have a medical problem.

People may disagree about the strengths and weaknesses of traditional Medicare relative to Medicare Advantage, but few argue for rules that stack the deck against seniors who prefer traditional Medicare. Over the past several years, the number of beneficiaries in Medicare Advantage plans has continued to rise. Despite the controversial reductions in payments included in the ACA, Medicare still pays more, on average, for people in Medicare Advantage plans than it does for beneficiaries in traditional Medicare, according to MedPAC.

The rise in Medicare Advantage enrollment is due to many factors, including relatively low premiums, extra benefits, and the simplicity of one-stop shopping. But Craig's experience sheds light on other factors which may explain why more people who initially choose Medicare Advantage feel they cannot switch to traditional Medicare if their needs and preferences change — a cautionary tale for consumers and for others who want to preserve or even strengthen traditional Medicare for the future.
